

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07

CEA-01 /093 W

-----074333 272103Z /14

R 261915Z JUL 78

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 3182

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E.O. 11652: N/A

TAGS: EFIN VE

SUBJECT: CENTRAL BANK APPROVES INTEREST RATE INCREASES

1. ACCORDING TO PRESS REPORTS, THE CENTRAL BANK OF VENEZUELA HAS APPROVED INCREASES AVERAGING ONE HALF OF ONE PERCENT IN INTEREST RATES PAID TO DEPOSITORS AND LENDERS IN THIS COUNTRY. NEW INTEREST RATE CEILINGS ARE AS FOLLOWS:

	NEW RATE(PERCENT)	OLD RATE (PERCENT)
LOANS BY MORTGAGE COMPANIES		
AND FINANCIERAS	11.5	11
COMMERCIAL BANK LOANS	10.5	10
TIME DEPOSIT CERTIFICATES		
(MORE THAN BS 400,000)	8.75	8
MORTGAGE COMPANY AND FINANCIERA		
BONDS (TAX FREE)	8.5	8

IN ADDITION, THE CEILING ON COMMISSIONS PAID RELATED TO THE CONSTRUCTION OF HOUSING HAS BEEN RAISED TO 3 PERCENT FROM 2 PERCENT.

2. COMMENT: DURING THE PAST TWO MONTHS THE GOV HAS ANNOUNCED A LIMITED OFFICIAL USE

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NUMBER OF MEASURES DESIGNED TO ALLEVIATE THE SHORTAGE OF LIQUIDITY, STIMULATE THE INFLOW OF FOREIGN CREDITS, AND DISCOURAGE THE TRANSFER OF FUNDS ABROAD BY VENEZUELANS CONCERNED ABOUT A POSSIBLE DEVALUATION OR IMPOSITION OF CURRENCY CONTROLS AFTER THE DECEMBER ELECTIONS. THESE MEASURES INCLUDE:

-A REDUCTION IN THE CENTRAL BANK'S "SWAP RATE" WHICH MAKES IT EASIER AND CHEAPER FOR VENEZUELANS TO BORROW ABROAD

TO MEET BOIVAR OBLIGATIONS. "SWAP" CONTRACTS INCLUDE A GUARANTEED EXCHANGE RATE AND MAY BE FOR A PERIOD AS LONG AS ONE YEAR (SEE CARACAS A-74, DATED JUNE 22, 1978.)

-INTEREST EARNINGS ON LONG TERM CREDITS (OVER ONE YEAR) OBTAINED FROM FOREIGN CREDITORS WILL NOT BE SUBJECT TO VENEZUELAN INCOME TAXES FOR AN INDEFINITE PERIOD.

-THE GOV WILL PERMIT FOREIGN LOANS TO THE VENEZUELAN PRIVATE SECTOR TO CARRY AN INTEREST RATE OF AS HIGH AS 3 PERCENT OVER LIBOR. THE PREVIOUS RATE WAS 2 PERCENT.

THE DECISION TO RAISE THE CEILINGS ON INTEREST RATES GENERALLY IS CONSISTENT WITH THIS PATTERN. THE GOV HOPES THAT, TAKEN TOGETHER, THESE MEASURES WILL HELP ARREST THE DECLINE IN FOREIGN EXCHANGE RESERVES THAT HAS TAKEN PLACE SINCE LAST AUGUST.

CROWLEY

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CENTRAL BANK, BANK RATES, BANKS, INTEREST RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 26 jul 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978CARACA06950
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780308-1105
Format: TEL
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780720/aaaaaqmz.tel
Line Count: 76
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 9dfee66c-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1887228
Secure: OPEN
Status: NATIVE
Subject: CENTRAL BANK APPROVES INTEREST RATE INCREASES
TAGS: EFIN, VE
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/9dfee66c-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014